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Transportation Finance

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The principal funding sources for the state's transportation programs can be divided into three categories: the state transportation fund, bond proceeds, and federal funds. This paper discusses these three sources of funding separately and provides data on the amounts provided from each source. However, since the Legislature uses the three transportation funding sources somewhat interchangeably in making spending decisions, an analysis of expenditures that examines only one source in isolation may not provide a complete picture of spending decisions. In the final section of this paper, therefore, additional information is provided to show how the total of all of the three sources is allocated among various types of programs.

Throughout this paper, unless otherwise specified, figures are provided for the 2005-06 fiscal year, since certain data for 2006-07 remained incomplete at the time of publication. In particular, the amount of federal aid that the state will receive in federal fiscal year 2007 remains uncertain.

Transportation Fund

History of the Fund and Its Use in Budgeting for Transportation

The state transportation fund is the largest source of funding for transportation programs, with annual revenues and expenditures of about \$1.5 billion in the 2005-06 fiscal year. The transportation fund was created by the 1977-79 biennial budget act, although the basic components of the new fund were substantially similar to its predecessor, the highway fund, which was created

in 1945. The new fund combined the revenue sources from the highway fund, which included the motor fuel tax, vehicle registration and titling fees, driver license fees, motor carrier fees, and other miscellaneous fees collected by the Department of Transportation (DOT), with revenues from the ad valorem property tax on commercial airlines and aircraft registration fees. A subsequent act of the 1977-79 session added ad valorem property taxes on railroads to the list of revenues deposited into the transportation fund, and only minor changes to the fund's makeup have been made since then.

Although the addition of the aviation and railroad taxes and fees to the fund added relatively small amounts of revenue to what had been the highway fund, the creation of a "unified" transportation fund in 1977 established a principle of transportation finance that continues today. That is, the Legislature now typically makes budgetary decisions for all modes of transportation without regard to the precise amounts collected from particular transportation taxes and fees. For instance, the Legislature makes appropriations from the transportation fund for airport improvements based upon an assessment of how much is appropriate for that purpose instead of how much revenue was collected from the aviation taxes and fees. Prior to the creation of the transportation fund, revenues from aviation taxes and fees were credited to a program revenue account and, therefore, funding for airport improvement projects was limited to the amount that was collected from these sources. Currently, transportation budgetary decisions for all modes of transportation and other DOT functions, such as the Division of Motor Vehicles, the State Patrol, and general administration, are generally made based upon this "transportation system" principle,

although there remains a certain degree of balance between revenue sources and related expenditures.

Overview of Transportation Fund Revenues

Table 1 shows the revenues collected from the major categories of transportation fund revenues for 2005-06. In the category called "vehicle registration fees," the total amount collected by the state from vehicle registration and other vehicle-related fees is shown, even though only a portion of these revenues are actually deposited in the transportation fund (68% in 2005-06). The remainder is used, prior to being deposited in the fund, to pay debt service and administrative costs associated with bonds issued in the state's transportation revenue bond program. The full amount of registration revenues (often called "gross registration revenue") is shown here to provide a complete picture of the revenue collected by the state from transportation-related taxes and fees.

Table 1: 2005-06 Transportation Fund Revenue Collection by Source

| | Amount | Percent of Total |
|-----------------------------|-------------------|------------------|
| Motor Vehicle Fuel Tax | \$962,771,300 | 63.2% |
| Vehicle Registration Fees | 449,299,500 | 29.5 |
| Driver License Fees | 30,537,000 | 2.0 |
| Other Motor Vehicle Fees | 22,404,300 | 1.5 |
| Aeronautical Taxes and Fees | 6,590,800 | 0.4 |
| Railroad Ad Valorem Tax | 16,448,900 | 1.1 |
| Motor Carrier Fees | 834,100 | 0.1 |
| Investment Earnings | 11,909,000 | 0.8 |
| Miscellaneous Revenue | <u>22,512,500</u> | <u>1.5</u> |
| Total | \$1,523,307,400 | 100.0% |

As can be seen from this table, a large majority of the gross transportation fund revenues comes from just two categories: motor vehicle fuel taxes and vehicle registration and other vehicle-related fees. Although all states tend to rely heavily on these two sources of revenue for financing transportation expenditures, many other states, unlike Wisconsin, also rely on highway tolls and general

fund revenues to finance certain transportation programs. Consequently, Wisconsin's heavy reliance on these two sources to fund a broad range of transportation programs is a hallmark of financing transportation in this state.

Table 2 shows the amounts of total transportation fund revenues collected since 1991-92, and the annual percentage growth of those amounts. The final two columns show significant increases or modifications to the taxes or fees (over \$10 million in annual revenues) that have accounted for some of the growth during the years in which they were enacted (excluding fuel tax indexing, which, while recently repealed, accounted for a substantial amount of the revenue growth in much of the period shown in the table). The enactment of a tax or fee increase affects the growth rates in the year that the increase becomes effective, but in many cases the growth rate may also be affected in the second fiscal year following enactment. This is because the increase may be in effect for only part of the first year (if it becomes effective after July 1), while the following year will reflect a full year of increased revenues. The table shows estimated increases in the year that the changes were enacted (based upon estimates made at the time of enactment) and also any additional increase in the following year.

Transportation Fund Taxes, Fees, and Other Revenue Sources

This section of the paper describes each of the categories of transportation taxes and fees that are deposited in the transportation fund.

Motor Vehicle Fuel Tax. The motor vehicle fuel tax is the largest source of revenue in the transportation fund, accounting for 63.2% of gross revenues in 2005-06. The tax is imposed on a per-gallon basis on gasoline, diesel, and alternative fuels (such as compressed natural gas and liquid propane gas) used in motor vehicles. On April 1, 2006, the fuel tax rate was increased from 30.1 cents per gallon to 30.9 cents per gallon under the state's inflation-based indexing formula. The annual indexing of the fuel tax rate, which was begun in

Table 2: Gross Transportation Fund Revenue History

| Fiscal Year | Total Gross Revenue | Percent Increase | Major Tax or Fee Increases or Modifications | Est. Revenue from Changes (\$ in Millions) |
|-------------|---------------------|------------------|--|--|
| 1991-92 | \$865,551,000 | | 9/1/91: Auto and truck registration increases | \$47.8 |
| 1992-93 | 894,817,100 | 3.4% | Additional increase associated with 9/1/91 changes | 21.9 |
| 1993-94 | 957,573,900 | 7.0 | | |
| 1994-95 | 993,541,200 | 3.8 | 7/1/94: Fuel tax collection procedure changes | 26.6 |
| 1995-96 | 1,039,786,400 | 4.7 | | |
| 1996-97 | 1,047,394,300 | 0.7 | | |
| 1997-98 | 1,141,690,400 | 9.0 | Various dates: Deposit supplemental title fee in transportation fund instead of environmental fund; fuel tax rate and registration fee increases; fuel tax indexing formula change | 48.0 |
| 1998-99 | 1,235,125,500 | 8.2 | Additional increase associated with 1997-98 changes | 35.0 |
| 1999-00 | 1,271,083,000 | 2.9 | | |
| 2000-01 | 1,283,376,900 | 1.0 | | |
| 2001-02 | 1,337,655,400 | 4.2 | | |
| 2002-03 | 1,386,588,400 | 3.7 | | |
| 2003-04 | 1,440,412,000 | 3.9 | 10/01/03: Auto registration and title increase | 36.8 |
| 2004-05 | 1,482,900,700 | 2.9 | Additional increase associated with 10/01/03 changes | 13.1 |
| 2005-06 | 1,523,307,400 | 2.7 | 10/1/05: Vehicle title fee increase | 11.3 |

1984, was repealed by 2005 Act 85, so the 2006 adjustment was the final automatic increase to the rate. Alternative fuel tax rates are currently 22.6 cents per gallon for liquefied petroleum gas and 24.7 cents per gallon for compressed natural gas. For a more complete discussion of the motor vehicle fuel tax, see the Legislative Fiscal Bureau's informational paper entitled, "Motor Vehicle Fuel and Alternate Fuel Tax."

Vehicle Registration Revenues. The category identified as "Vehicle Registration Revenues" in Table 1 is primarily composed of revenue from vehicle registration fees (generally about 85% of the total), but also includes other vehicle-related fees. The most significant of these other fees include title transfer fees (\$36 for most transactions, not including the \$9 environmental impact title fee, which is deposited in the environmental fund), the fee for late registration renewal (\$10), special license plate issuance fees (\$15), and registration and title counter service fees (\$3 or \$5, depending upon the type of transaction).

Wisconsin statutes create many different vehicle classifications for the purposes of vehicle

registration. The fee for automobiles (a vehicle category that is defined to include sport utility vehicles and vans used primarily for passengers) was last raised on October 1, 2003, from \$45 to \$55. The fees for trucks and several other types of vehicles are based upon the weight of the vehicle. For most types of trucks and trailers, there are 19 different weight categories with fees that range from \$48.50 for a truck that is 4,500 pounds or less, to \$1,987.50 for a truck-semitrailer combination that is between 76,000 pounds and 80,000 pounds. Certain trucks that are used in agriculture or forestry, although also registered on the basis of weight, pay a fee that is less than the fee for other trucks. The fee for farm trucks, for instance, is 25% of the fee for a nonfarm truck of the same weight.

The truck fees were last raised on December 1, 1997, when all such fees were increased by 7.5%. Table 3 shows the history of the last several registration fee changes for automobiles and for trucks. The fee for the heaviest truck category, 80,000 pounds, is shown as an example, although in each instance in which fees were raised during the period shown, the fees for all or virtually all of the weight classifications were increased.

Table 3: Most Recent Changes to Vehicle Registration Fees

| Automobile | | |
|-------------------|---------|---------|
| Date of Change | Old Fee | New Fee |
| September 1, 1981 | \$18.00 | \$25.00 |
| September 1, 1991 | 25.00 | 40.00 |
| December 1, 1997 | 40.00 | 45.00 |
| October 1, 2003 | 45.00 | 55.00 |

| 80,000 Pound Truck | | |
|--------------------|------------|------------|
| Date of Change | Old Fee | New Fee |
| January 1, 1982 | \$1,620.00 | \$1,700.00 |
| September 1, 1991 | 1,700.00 | 1,850.00 |
| December 1, 1997 | 1,850.00 | 1,987.50 |

Driver License Fees. Driver license revenues include the fees for original and renewal driver licenses, endorsements, and identification cards, but also other license-related fees, such as duplicate license fees, fees for late renewal, and reinstatement fees for licenses that have been suspended or revoked. Licenses for regular automobiles and light trucks ("Class D") and for commercial motor vehicles are generally valid for eight years. The fee for a Class D license is \$24, while the fee for a commercial driver's license is \$64.

Other Motor Vehicle Fees. The most significant sources of revenue in the other motor vehicle fees-revenue category are the fee for driver license abstracts (primarily sold to insurance companies for use in underwriting) and the vehicle rental fee. The fee for driver license abstracts is \$5 per record for most types of records. The vehicle rental fee is a tax on the gross receipts from the rental of automobiles, mobile homes, motor homes, camping trailers, and limousines that are rented for a period of 30 days or less. The rate of the tax is 5%.

Aeronautical Taxes and Fees. The primary source of aviation-related revenue is the ad valorem tax on commercial airline property. Commercial airlines are exempt from local property taxes and, instead, are taxed under the state's ad valorem tax. The

property of airlines is valued on a systemwide basis, and a portion of that value is allocated to Wisconsin based on a statutory formula intended to reflect each airline's activity in the state. The resulting value is taxed at the statewide average tax rate for property subject to local property taxes, net of state tax credits. In 2006, there were 28 airlines that paid this tax.

Airlines that operate a hub facility in the state are exempt from paying the ad valorem tax, an exemption that began in 2001. For the purposes of this provision, an airline hub is defined as either of the following: (a) a facility from which an air carrier company operated at least 45 common carrier departing flights each weekday in the prior year and from which it transported passengers to at least 15 nonstop destinations or transported cargo to nonstop destinations; or (b) an airport or any combination of airports in Wisconsin from which an air carrier company cumulatively operated at least 20 common carrier departing flights each weekday in the prior year, if the air carrier company's headquarters is in the state. In 2006, Midwest Airlines and Air Wisconsin were the only two carriers that qualify for the exemption. In 2007, however, the Department of Revenue indicates that Air Wisconsin will no longer be eligible for the exemption because it did not meet the hub facility definition in 2006.

In 2005-06, the ad valorem tax on commercial airline property accounted for about 71% of the revenue in the aeronautical taxes and fees category shown in Table 1. The remaining revenue in this category comes from two general aviation-related sources. First, aircraft that are not subject to the ad valorem tax must pay an aircraft registration fee, which ranges from \$60 for two years for an aircraft that is 2,000 pounds or less to \$3,125 annually for an aircraft over 100,000 pounds. Second, general aviation fuel is subject to a fuel tax of six cents per gallon.

Railroad Ad Valorem Tax. As with airline property, property owned by railroads is exempt

from local property taxes and is subject to a state ad valorem tax. The value of railroad companies, as with airlines, is determined on a systemwide basis, and then a portion is allocated to Wisconsin based upon each railroad's activity in the state. As with the airline ad valorem tax, the Wisconsin portion of the railroad's property is taxed at the statewide average net tax rate. In 2006, there were 11 railroad companies that paid the tax.

Motor Carrier Fees. Commercial motor carriers are required to file proof of federal motor carrier registration and proof of insurance prior to operating in the state, unless they have filed such proof with a different state that participates (as does Wisconsin) in the base-state motor carrier registration system. There is a \$5 filing fee per vehicle for this registration. Under the base-state system, revenue collected by a motor carrier's base state is shared with other states in which the motor carrier operates. The filing fees received by motor carriers filing in Wisconsin and revenue received from other states for other motor carriers that operate in the state are tracked in the motor carrier fees category.

Investment Earnings. These are earnings on the balances maintained in the transportation fund. These balances are pooled with balances in other funds and invested on a short-term basis by the State Investment Board. The proportionate earnings attributable to the transportation fund's balances are credited to the fund on a monthly basis.

Miscellaneous Revenue. Other revenues collected by the Department include revenue from sales of surplus property, motor vehicle dealer license fees, salvage vehicle inspection fees, real estate lease income (primarily from leasing parking space), oversize or overweight truck permit fees, and outdoor advertising permit fees.

In addition, the transportation fund also receives two annual transfers from other funds, which are included in the miscellaneous revenue

category. One is a transfer from the general fund to partially compensate the transportation fund for revenue lost due to the airline hub ad valorem tax exemption. When the Legislature created the exemption, the decision was made to transfer an amount of revenue from the general fund to the transportation fund, beginning in 2004-05, equal to the amount that any exempt airlines paid in the last year before becoming exempt. Based upon the combined amount paid by Midwest Airlines and Air Wisconsin in 2000, the last year before the exemption took effect, the transfer in both years of the 2005-07 biennium from the general fund is \$2,530,400.

The other transfer is from the petroleum inspection fund. In both years of the 2005-07 biennium, the amount transferred is \$6,321,700. The intent of this transfer, which was begun in 2004-05, is to fund a portion of the cost of the vehicle emissions inspection program in southeast Wisconsin with revenue from the petroleum inspection fund. This revenue is deposited in the transportation fund, but there is no direct tie to the appropriation for the emissions inspection program.

Use of Transportation Fund Revenues for General Fund Purposes

Both the 2003-05 and 2005-07 biennial budget acts used transportation fund revenues as part of a strategy to balance the general fund budget. The 2003-05 budget act used a combination of direct appropriations from the transportation fund for general fund programs (shared revenue and K-12 education aids) and a transfer of revenues from the transportation fund to the general fund. In total, \$675.0 million in transportation fund revenues went to general fund programs. The 2005-07 biennial budget act made a transfer of \$427.0 million from the transportation fund to the general fund, bringing the total over the two biennia to \$1,102.0 million.

In order to make these revenues available, both

acts reduced transportation fund appropriations for the state highway programs, reductions that were partially replaced with general obligation bonds. In the 2003-05 biennium, a total of \$565.5 million of general obligation bonds were authorized for the highway programs, while in the 2005-07 biennium, \$250.0 million was authorized, bringing the total to \$815.5 million.

Debt service on the bonds provided in the 2003-05 biennium was paid from the transportation fund during the that biennium, but beginning in 2005-06, the general fund assumed responsibility for paying the remaining debt service. The transportation fund paid a total of \$43.9 million in debt service on the replacement bonds during the 2003-05 biennium. Debt service on the \$250.0 million in bonds authorized in the 2005-07 biennium is paid from the general fund.

Total debt service payments from the general fund on the bonds issued in both biennia is estimated at \$68.7 million in 2006-07 and is projected to increase to about \$90 million annually in the 2007-09 biennium.

Table 4 summarizes the transfers, bonds, and the debt service paid from the transportation fund. The totals are expressed in terms of the "loss" to the transportation fund as a result of the transfers and appropriations. Consequently, the appropriations and transfers for general fund purposes are par-

tially offset by the replacement bonding, but the debt service paid from the transportation fund in the 2003-05 biennium adds to the loss. Therefore, the total loss to the transportation fund over the four years equals \$330.4 million.

Allocation of Transportation Fund Revenue

As noted at the beginning of this paper, the allocation of transportation fund revenue alone between various programs should not be used as an indicator of overall transportation budgetary decisions since bonds and federal aid also play an important role in financing transportation. However, the allocation of transportation fund revenue is shown in Table 5 because it demonstrates the role that the transportation fund played in balancing the general fund budget during the biennium.

Of the \$427.0 million transferred to the general fund by the 2005-07 biennial budget act, \$338.4 million was transferred in 2005-06, as shown in the table. As noted above, the transportation fund appropriations for the state highway programs were reduced to make this transfer possible. Consequently, as shown in the table, the percentage of transportation fund revenue allocated to state highway programs went from an average of 36.0% in the four years between 1999-00 and 2002-03, to 18.4% in 2005-06. (Table 5 uses the four-year period prior to the 2003-05 biennium for comparison since the 2003-05 biennial budget act also used transportation fund revenue for general fund purposes.) It should be noted, however, that the reduction in the share of transportation fund revenues spent in the state highway programs is not necessarily an indication of the overall funding share for those programs, since bonds and federal funds are also provided for those programs. Tables 10 and 11 at the end of this paper show the total expenditure allocation of all of these sources of transportation revenues.

Table 4: Loss to Transportation Programs Associated with Transfers in 2003-05 and 2005-07

| | 2003-05 | 2005-07 | 4-Year Total |
|-------------------------------|-------------|------------|-----------------|
| Transfers and Appropriations | \$675.0 | \$427.0 | \$1,102.0 |
| Less Gen. Ob. Bonds | -565.5 | -250.0 | -815.5 |
| Plus Trans. Fund Debt Service | <u>43.9</u> | <u>0.0</u> | <u>43.9</u> |
| Total | \$153.4 | \$177.0 | \$330.4 |

Table 5: Allocation of Transportation Fund Revenue Among All Functions

| | 2005-06 Allocation | | Four-Year Average 1999-00 to 2002-03 | |
|----------------------------------|------------------------|---------------|---|---------------|
| | Amount | Percentage | Amount | Percentage |
| Local Road Aids | \$424,200,900 | 27.2% | \$399,911,600 | 30.4% |
| Transfer to General Fund | 338,449,000 | 21.7 | 0 | 0.0 |
| Highway Programs | 286,630,300 | 18.4 | 473,104,200 | 36.0 |
| Debt Service | 148,166,300 | 9.5 | 95,976,500 | 7.3 |
| Mass Transit Aids | 110,785,600 | 7.1 | 101,925,200 | 7.8 |
| Division of Motor Vehicles | 82,877,200 | 5.3 | 78,891,500 | 6.0 |
| General Administration | 65,945,700 | 4.2 | 71,436,300 | 5.4 |
| State Patrol | 50,756,900 | 3.3 | 46,270,300 | 3.5 |
| Non-DOT Programs* | 23,335,800 | 1.5 | 18,296,900 | 1.4 |
| Railroads, Harbors, and Airports | 19,350,200 | 1.2 | 20,113,600 | 1.5 |
| Other Programs** | 8,582,800 | 0.6 | 8,691,300 | 0.7 |
| Total | \$1,559,080,700 | 100.0% | \$1,314,617,400 | 100.0% |

*Includes transfers to the conservation fund for the motorboat, snowmobile, and all-terrain vehicle accounts, and Department of Revenue programs for administering the transportation fund taxes.

**Includes the transportation economic assistance program, traffic safety programs, and other smaller programs.

Transportation Bonds

Bonds were first authorized directly by the state for highway, bridge, and administrative facility projects in 1969. (Prior to that time, counties could issue bonds for work on state highways and were reimbursed by the state for the debt service costs.) Originally, the bonds authorized for highways and bridges were general obligation bonds, meaning that the state pledges the "full faith, credit, and taxing power" of the state for the payment of debt service. Beginning in 1984, however, the state stopped using general obligation bonds for these purposes and began authorizing transportation revenue bonds for major highway development and administrative facility projects. Unlike general obligation bonds, revenue bonds are not backed by the full faith, credit, and taxing power of the state, but instead, the source of debt service payments is limited to a specific fund consisting of fees,

penalties, or excise taxes set up for that purpose. In the case of transportation revenue bonds, this fund consists of vehicle registration fees and other vehicle-related revenues, such as title fees. These are sometimes called "pledged" revenues since the state pledges the collections to a third-party trustee for the payment of debt service. The trustee processes the receipts, makes the debt service payments, and then returns the balance of the revenues to the state for deposit in the transportation fund.

The relationship between the amount of pledged revenues received during a given time period and the amount of debt service payments in that period is called the "coverage ratio." Under the guidelines for the issuance of bonds under the transportation revenue bond program, new bonds may be issued only if the coverage ratio was at least 2.25 for at least 12 consecutive months of the preceding 18 months (that is, pledged revenues are 2.25 times greater than the amount needed to pay debt service costs). However, it is generally

considered that a ratio of 2.5 or more is desirable in order to maintain a cushion above the level at which the issuance of additional bonds would be precluded. A coverage ratio below 2.5 may also increase the risk that the rating for the bonds is downgraded, which would increase the interest costs associated with the bonds.

Although the state generally replaced the use of general obligation bonds for major highway development projects with revenue bonds in 1984, transportation fund-supported, general obligation bonds have long been issued for freight rail and harbor improvement projects and the 2005-07 biennial budget also authorized general obligation bonds for the Marquette Interchange reconstruction project. Because debt service on general obligation bonds is paid from a sum-sufficient appropriation from the transportation fund rather than from pledged revenues, the coverage ratio measure is not relevant to a discussion of this bonding. Different measures of the level of bonding and debt service are discussed in the following section.

Bonding Level

Table 6 shows the amount of revenue bonds provided for major highway development and administrative facilities projects over a ten-year period, as well as the amount of revenue bond debt service paid during that period (including projected amounts for 2006-07). Over this period, appropriations of transportation revenue bond proceeds have grown at an average, annual rate of 3.4%, while debt service grew at an average, annual rate of 9.5%. The rapid growth in debt service, relative to the growth in bonding usage, is partly due to the rapid growth in the use of bonding in the period prior to the period shown in the table. The amount of bonding authorized for the major highway development program nearly doubled in two years, from \$54.8 million in 1989-90 to \$104.7

Table 6: Revenue Bond Appropriations and Debt Service

| Fiscal Year | Revenue Bond Appropriations | | | Revenue Bond Debt Service |
|----------------------------|-----------------------------|-------------------|---------------|---------------------------|
| | Major Hwy. Development | Admin. Facilities | Total | |
| 1997-98 | \$110,535,300 | \$2,785,400 | \$113,320,700 | \$71,933,500 |
| 1998-99 | 110,535,300 | 2,785,400 | 113,320,700 | 80,940,500 |
| 1999-00 | 119,629,900 | 2,785,400 | 122,415,300 | 84,173,000 |
| 2000-01 | 119,907,200 | 2,785,400 | 122,692,600 | 89,076,000 |
| 2001-02 | 127,035,100 | 4,377,300 | 131,412,400 | 87,948,000 |
| 2002-03 | 130,139,100 | 6,000,000 | 136,139,100 | 101,129,300 |
| 2003-04 | 136,167,400 | 6,000,000 | 142,167,400 | 113,087,100 |
| 2004-05 | 136,804,400 | 6,000,000 | 142,804,400 | 122,043,600 |
| 2005-06 | 150,838,100 | 6,000,000 | 156,838,100 | 143,678,500 |
| 2006-07* | 146,727,200 | 6,000,000 | 152,727,200 | 163,100,600 |
| Average Annual Growth Rate | | | 3.4% | 9.5% |

*Debt service amount shown for 2006-07 is an estimate.

million in 1991-92.

Debt service increases have had an impact on the transportation revenue bond coverage ratio which, as noted above, is the ratio by which revenues pledged for the payment of debt service exceeds the amount needed to pay debt service. If debt service payments grow at a faster rate than the growth in pledged revenue, then the coverage ratio will go down. Table 7 shows the coverage ratios over a ten-year period, including an estimate of the coverage ratio for 2006-07. As the table

Table 7: Revenue Bond Coverage Ratios (\$ in Millions)

| Fiscal Year | Revenue Bond Debt Service | Pledged Revenue | Coverage Ratio |
|-------------|---------------------------|-----------------|----------------|
| 1997-98 | \$71.9 | \$280.6 | 3.9:1 |
| 1998-99 | 80.9 | 294.8 | 3.6:1 |
| 1999-00 | 84.2 | 310.8 | 3.7:1 |
| 2000-01 | 89.1 | 313.9 | 3.5:1 |
| 2001-02 | 87.9 | 323.8 | 3.7:1 |
| 2002-03 | 101.1 | 320.3 | 3.2:1 |
| 2003-04 | 113.1 | 416.0 | 3.7:1 |
| 2004-05 | 122.0 | 422.0 | 3.5:1 |
| 2005-06 | 143.7 | 450.5 | 3.1:1 |
| 2006-07* | 163.1 | 458.3 | 2.8:1 |

* Figures for 2006-07 are estimates.

shows, coverage ratios have generally gone down over this period.

It should be noted that the coverage ratio for 2003-04 is higher than in 2002-03, despite the fact that debt service increased by nearly 12% in 2003-04 from the previous year. Part of the reason for this is that the 2003-05 budget act increased the registration fee for automobiles by \$10, from \$45 to \$55, effective October 1, 2003, raising pledged revenues by about \$25 million in 2003-04. But another reason is that the budget act also added several types of fees to the list of revenues that are pledged to the payment of debt service, such as vehicle titling fees, special license plate fees, and late registration renewal fees. This decision increased pledged revenues by about \$70 million on an annualized basis.

The decision made in the 2003-05 biennium to pledge additional, existing revenues for debt service illustrates one of the limitations of using the coverage ratio as a measure of overall bonding indebtedness. While increasing overall pledged revenues by pledging title fees for debt service payments (as opposed to increasing the fees that are already pledged) temporarily increased the coverage ratio, this type of decision does not necessarily improve the state's overall transportation fiscal condition, since it did not increase the total amount of revenues available for transportation.

In addition to this limitation, coverage ratios are also not a complete measure of the overall level of indebtedness because, as noted above, they do not take into consideration the level of general obligation bond debt. As also noted earlier, the use of general obligation bond is a long-standing practice, but has increased recently, particularly with the authorization of \$213.1 million in bonds for the Marquette Interchange reconstruction project by the 2005-07 biennial budget act. Table 8 shows the amount of general obligation bonding authorized over the last five biennia. The bonds authorized to replace transportation fund revenues

Table 8: General Obligation Bond Authorization

| Biennium | Freight Rail Projects | Harbor Projects | Highway Projects | Total |
|----------|-----------------------|-----------------|------------------|-------------|
| 1995-97 | \$4,500,000 | \$3,000,000 | \$0 | \$7,500,000 |
| 1997-99 | 4,500,000 | 3,000,000 | 0 | 7,500,000 |
| 1999-01 | 4,500,000 | 7,000,000 | 0 | 11,500,000 |
| 2001-03 | 4,500,000 | 3,000,000 | 0 | 7,500,000 |
| 2003-05 | 4,500,000 | 3,000,000 | 0 | 7,500,000 |
| 2005-07 | 12,000,000 | 12,700,000 | 213,100,000 | 237,800,000 |

in the highway program in the 2003-05 and 2005-07 biennia are excluded since these bonds were not generally transportation fund-supported bonds.

Since the use of general obligation bonds increased significantly in the 2005-07 biennium, and may continue to be a source of funding for transportation, it may be useful to use a measure of the debt burden that takes into consideration both revenue bond and general obligation bond debt service. One measure that does this is the percentage of total transportation fund revenues that must be devoted to paying total debt service on both types of bonds. Table 9 shows this measure of debt service for the fiscal years since 1995-96, including a projection for 2006-07.

As the table shows, the percentage of gross transportation fund revenues devoted to debt

Table 9: Debt Service as a Percentage of Gross Transportation Fund Revenue (\$ in Millions)

| Fiscal Year | Total Debt Service | Gross Revenues | Debt Service as % of Revenues |
|-------------|--------------------|----------------|-------------------------------|
| 1995-96 | \$67.3 | \$1,039.8 | 6.5% |
| 1996-97 | 76.4 | 1,047.4 | 7.3 |
| 1997-98 | 78.7 | 1,141.7 | 6.9 |
| 1998-99 | 87.4 | 1,235.1 | 7.1 |
| 1999-00 | 90.3 | 1,271.1 | 7.1 |
| 2000-01 | 94.5 | 1,283.4 | 7.4 |
| 2001-02 | 93.3 | 1,337.7 | 7.0 |
| 2002-03 | 105.8 | 1,386.6 | 7.6 |
| 2003-04 | 119.7 | 1,440.4 | 8.3 |
| 2004-05 | 166.2 | 1,482.9 | 11.2 |
| 2005-06 | 148.2 | 1,523.3 | 9.7 |
| 2006-07* | 184.9 | 1,566.0 | 11.8 |

* Debt service and revenues shown for 2006-07 are estimates.

service has increased over the period shown, suggesting that the use of bonding has grown at a faster rate than revenues. These increases have been particularly significant in the last six years, when debt service went from 7.0% of gross revenues in 2001-02, to a projected 11.8% in 2006-07. The percentages in 2003-04 and 2004-05 are affected by the temporary payment, from the transportation fund, of debt service on the general obligation bonds that were authorized as part of the policy of using transportation fund revenues for general fund purposes. In 2005-06, debt service on those bonds reverted to the general fund, accounting for the decrease in the debt service percentage in that year. Without that debt service in 2003-04 and 2004-05, the debt service percentages would have been 8.1% and 8.4%, respectively.

Federal Funds

The state receives federal transportation funds for several different programs. This section provides information on the following types of federal aid: (a) highway aid; (b) airport aid; (c) transit aid; and (d) transportation safety aid.

Federal Highway Aid

Federal highway aid is the largest category of transportation aid, with the state receiving \$630 million in aid in federal fiscal year 2006 (\$587 million in formula funds and \$43 million in congressionally earmarked funds). Because of the large amount received, federal highway aid plays an important role in the state's overall transportation finance policy. This program also tends to draw the most legislative interest because of the flexibility that the state has with respect to the use of the funds. Unlike the other federal transportation programs, in which funds are generally received for narrowly prescribed

purposes, federal highway aid may be spent within any of several different federal subprograms, for both state and local transportation projects. In Wisconsin, the Legislature has established a process whereby the funds are allocated in the biennial budget to the different state programs corresponding to the various federal program categories. These allocations may be adjusted later by the Joint Committee on Finance in the event that the amount of funds received differs by more than 5% from the amount allocated by the budget act.

Although a majority of federal highway aid is used in the state highway programs, significant amounts are also spent on local highway and bridge projects that are eligible for federal assistance. Smaller amounts are also spent for the following federally authorized purposes: (a) railroad crossing improvements (generally new signals or gates); (b) transportation enhancements (generally bicycle and pedestrian projects and renovation of historic transportation facilities); (c) congestion mitigation/air quality improvement projects (measures designed to reduce road congestion in ozone nonattainment areas, including the state's emissions inspection program in southeastern Wisconsin); and (d) state and metropolitan transportation planning and research activities. Table 10 shows the allocation of federal highway aid in state fiscal year 2005-06. (Table 10 shows the allocation of estimated federal revenues among DOT appropriations in 2005 Act 33. Actual federal aid was \$630 million, although since this was within 5% of the budget estimate, the additional amount was not formally allocated to the appropriations.)

The source for federal highway aid is the highway account of the federal highway trust fund. The revenue in the highway account originates from a portion of the federal excise tax on gasoline and diesel fuel, a tax on tires over 40 pounds, taxes on the sale of heavy trucks and trailers, and the federal heavy vehicle use tax.

Table 10: Allocation of Federal Highway Aid for 2005-06

| State Appropriation | Amount |
|---|------------------|
| State Highway Rehabilitation | \$296,867,400 |
| Southeast Wisconsin Freeway Rehabilitation | 111,454,500 |
| Major Highway Development | 78,975,000 |
| Local Transportation Facility Assistance | 70,391,300 |
| Local Bridge Assistance | 24,438,300 |
| Congestion Mitigation/Air Quality Improvement | 11,619,000 |
| Departmental Operations | 9,789,600 |
| Transportation Enhancements | 6,256,600 |
| Rail Passenger Service | 4,581,400 |
| Administration and Planning | 4,363,800 |
| Railroad Crossing Improvement | 3,299,600 |
| Highway Maintenance | <u>1,102,900</u> |
| Total Federal Highway Aid | \$623,139,400 |

Federal Airport Aid

Federal airport aid is distributed in three forms: (a) entitlement funds, which are based on the number of enplanements at commercial service airports; (b) discretionary funds, which are distributed using a rating process for specific projects at general aviation or commercial airports; and (c) block grants, which are funds provided to states for use at general aviation airports. Entitlement funds and discretionary funds are received for either a particular airport or for a particular airport project, while the state has some discretion as to where block grant funds are used.

Most federal airport aid requires a nonfederal match of between 10% to 40%, depending upon the type of project. In Wisconsin, the nonfederal portion is split evenly between state funds and local funds. The state received \$55.2 million in federal airport aid in federal fiscal year 2006. Federal airport funds are provided from the federal airport and airway trust fund, which includes revenue from taxes on airline tickets, flight segment taxes, air cargo taxes, and aviation fuel taxes.

Federal Transit Aid

Wisconsin receives transit aid from several different federal programs. The largest amounts are

provided through the federal urbanized area formula and nonurbanized area formula programs. Urbanized areas over 200,000 in population (the Madison and Milwaukee urbanized areas) receive federal transit funds directly from the urbanized area formula program (administered by the metropolitan planning organization for those areas), while urbanized area funds for areas under 200,000, but over 50,000, in population are distributed to the state, which makes allocations as part of the state's transit aid formula. Nonurbanized area funds for areas under 50,000 in population are also distributed to the state and allocated to small local transit systems. Other federal transit programs include the job access reverse commute program, the elderly and disabled program, and the capital assistance program, which includes funding for new buses, new transit system capital assistance ("new starts"), and fixed guideway capital assistance. With some of these other programs, the state receives funding on a periodic basis in the form of Congressional earmarks or discretionary awards, while others provide funding on an annual basis based on a formula.

In federal fiscal year 2006, the total amount of transit aid received directly by the state and reflected in state appropriations was \$41.4 million. This includes the urbanized and nonurbanized formula funds, capital funds for buses, job access reverse commute funds, and elderly and disabled funds. The Madison and Milwaukee areas together directly received a total of \$24.9 million in federal formula funds and \$1.8 million in project funds, which are not reflected in state appropriations.

Transit aid is provided from the mass transit account of the highway trust fund. This account is funded with a portion of the federal excise tax on gasoline and diesel fuel.

Federal Transportation Safety Aid

The state receives most of its federal transportation safety funds from three programs. Two of them are general traffic safety programs,

which are administered by the Department's Bureau of Transportation Safety within the Division of State Patrol and the other is the motor carrier safety assistance program, administered by the State Patrol's motor carrier inspectors.

The two general traffic safety programs are the state and community highway safety grant program (typically referred to as the "section 402" program after the citation for the program in Title 23 of the U.S. Code) and the alcohol-impaired driving countermeasures incentive grant program (also referred to as "section 410"). The section 402 program provides funds with broad eligibility for funding state programs and local grants designed to increase safety through education initiatives, enhanced enforcement, and emergency response improvements. In order to receive section 402 funds, states are required to develop a plan that outlines several traffic safety goals and describes how the projects that would be funded are designed to meet those goals. In federal fiscal year 2006, the state received \$4.3 million from this program.

The section 410 program provides grants to be used specifically to combat problems associated with impaired driving and underage alcohol consumption. In order to receive these funds, the state has to have a minimum number of certain laws or programs, such as an administrative license suspension law for drivers who are arrested with a blood alcohol level above the legal limit, a zero tolerance law for underage drivers, a graduated license law, and a program to target drivers who are arrested for very high blood alcohol contents. About two-thirds of the states, including Wisconsin, currently qualify for these grants. In 2006, the state received \$2.1 million from this program.

Federal motor carrier safety assistance program funds are received for activities related to the enforcement of federal motor carrier laws. DOT uses these funds for a portion of the cost of the State Patrol's motor carrier inspectors, who conduct inspections at truck weigh stations and on

roadsides. In 2006, the state received \$3.4 million in federal funds for the "basic" program. Typically, other smaller amounts are also received, on either a discretionary or formula basis, for specific projects related to motor carrier enforcement, such as upgrading the technology used to track enforcement-related data.

Allocation of the Three Transportation Revenue Sources

An analysis of transportation expenditures that focuses on just one source of funding provides an incomplete picture of legislative decisions, since the three principal funding sources are used interchangeably in certain key transportation programs. For instance, in the course of deliberations on the biennial budget, the Legislature may replace an amount of transportation fund dollars in the budget for the major highway development program with an equal amount of transportation revenue bonds (by increasing the statutory bonding authorization) so that the transportation fund dollars can be used in a different program, such as local transportation aids, for which bonds cannot be used. Although that decision would reduce the amount and percentage of transportation fund dollars allocated to the major highway development program (and would provide a corresponding increase in the amount allocated to the other program), the overall level of funding for the major highway development program would remain unchanged, a fact that would not be apparent in an analysis of the allocation of transportation fund dollars alone.

For this reason, this section discusses the allocation of the combined sum of all three sources to various transportation program categories. Table 11 shows this allocation for 2005-06. This analysis reflects the amounts shown in the statutory appropriations schedule, with adjustments made to in-

Table 11: Allocation of the Three Major Transportation Revenue Sources Among All Functions

| | 2005-06 Allocation | | Four-Year Average 1999-00 to 2002-03 | |
|----------------------------------|--------------------|------------|---|------------|
| | Amount | Percentage | Amount | Percentage |
| Highway Programs | \$1,388,968,200 | 47.2% | \$1,012,501,225 | 48.4% |
| Local Road Aids | 519,030,500 | 17.6 | 504,211,650 | 24.1 |
| General Fund Transfer | 338,449,000 | 11.5 | 0 | 0.0 |
| Mass Transit Aids | 150,285,600 | 5.1 | 128,300,200 | 6.1 |
| Debt Service | 148,166,300 | 5.0 | 95,976,450 | 4.6 |
| Railroads, Harbors, and Airports | 113,631,200 | 3.9 | 73,587,900 | 3.5 |
| General Administration | 87,218,400 | 3.0 | 95,598,425 | 4.6 |
| Division of Motor Vehicles | 83,077,200 | 2.8 | 82,154,875 | 3.9 |
| State Patrol | 58,647,900 | 2.0 | 48,578,575 | 2.3 |
| Other Programs* | 32,015,100 | 1.1 | 32,219,400 | 1.5 |
| Non-DOT Programs** | <u>23,335,800</u> | <u>0.8</u> | <u>18,296,850</u> | <u>0.9</u> |
| Total | \$2,942,825,200 | 100.0% | \$2,091,425,550 | 100.0% |

*Includes the transportation economic assistance program, transportation enhancement grant program, congestion mitigation and air quality improvement grant program, traffic safety programs, expressway policing aids, and other smaller programs.

**Includes transfers to the conservation fund for the motorboat, snowmobile, and all-terrain vehicle accounts, and Department of Revenue programs for administering the transportation fund taxes.

clude transportation revenue bond debt service (which is not reflected in an appropriation) and to reflect the actual amount of general obligation debt service paid.

As mentioned earlier in this paper, the allocation of transportation resources during the four years of the 2003-05 and 2005-07 biennia is significantly different from previous years. In 2005-06, \$250.0 million in general obligation bonds were authorized for the state highway rehabilitation program, allowing transportation fund revenues in the base for that program to be diverted for general fund purposes. The addition of these bonds to the total amount of transportation-related revenues and, at the same time, the allocation of SEG funds to general fund purposes outside of DOT has the effect of reducing the percentage of the total funding used for DOT programs. To show this effect, and also to show what could be considered a more typical allocation from the previous years, the last two columns in Table 11 show the average amount and percentage allocation during the four fiscal years prior to the 2003-05 biennium, from 1999-00 to 2002-03. As this comparison shows, in

prior years, the local road aid programs, for instance, received 24.1% of transportation dollars from the three sources, whereas this fell to 17.6% in 2005-06, due in large part to the fact that the overall total was increased with the addition of the general obligation bonds for the highway programs and a portion of this higher total was used for general fund purposes. This increase to the total does not substantially reduce the percentage of total resources going to the state highway programs because those programs also received a sizeable increase in bonding for the Marquette Interchange reconstruction project.

A different way to analyze expenditure data is to look at the allocation of funding for only DOT programs and debt service. Table 12 shows the allocation of the sum of the three major transportation revenue sources, excluding the general fund purposes and other programs outside of DOT (which are the transfers to the conservation fund and the DOR appropriations for administering transportation fund taxes). Again, both the 2005-06 allocation and the four-year average allocation (1999-00 to 2002-03) are shown.

**Table 12: Allocation of the Three Major Transportation Revenue Sources
Among DOT Programs**

| | 2005-06 Allocation | | Four-Year Average 1999-00 to 2002-03 | |
|----------------------------------|--------------------|------------|---|------------|
| | Amount | Percentage | Amount | Percentage |
| Highway Programs | \$1,388,968,200 | 53.8% | \$1,012,501,225 | 48.8% |
| Local Road Aids | 519,030,500 | 20.1 | 504,211,650 | 24.3 |
| Mass Transit Aids | 150,285,600 | 5.8 | 128,300,200 | 6.2 |
| Debt Service | 148,166,300 | 5.7 | 95,976,450 | 4.6 |
| Railroads, Harbors, and Airports | 113,631,200 | 4.4 | 73,587,900 | 3.5 |
| General Administration | 87,218,400 | 3.4 | 95,598,425 | 4.6 |
| Division of Motor Vehicles | 83,077,200 | 3.2 | 82,154,875 | 4.0 |
| State Patrol | 58,647,900 | 2.3 | 48,578,575 | 2.3 |
| Other Programs* | <u>32,015,100</u> | <u>1.2</u> | <u>32,219,400</u> | <u>1.6</u> |
| Total | \$2,581,040,400 | 100.0% | \$2,073,128,700 | 100.0% |

*Includes the transportation economic assistance program, transportation enhancement grant program, congestion mitigation and air quality improvement grant program, traffic safety programs, expressway policing aids, and other smaller programs.